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## Bad News Flows On: Two More Retailers Hit Financial Crunch

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The retail shakeout continues. Once high-flying Steve & Barry's University Sportswear is scrambling to raise \$30 million in financing — and is up against

increasingly difficult odds.

Meanwhile, Whitehall Jewelers said Monday that it had filed a voluntary Chapter 11 petition for reorganization in a Delaware bankruptcy court, just a few months after acquiring a bankrupt

jewelry chain.

The news at Steve & Barry's and Whitehall perhaps contributed to a steep fall in retail shares on Wall Street on Monday, even though the overall market

See **Steve**, Page 10

# Steve & Barry's, Whitehall Seek Relief

Continued from page one  
stemmed its steep declines of last week. The Standard & Poor's Retail Index dropped 2.5 percent to 370.37 even as the Dow Jones Industrial Average and the S&P 500 remained relatively steady, ending the day at 11,842.36 and 1,318, respectively.

Rapid expansion, thin margins and a swollen portfolio of licensed brands are exacting a high toll on Steve & Barry's, which not too long ago was talking a potential initial public offering. With what seemed like ample lines of credit in place, the sudden fall from grace surprised financial and retailing executives on Monday.

One of the few signs of difficulties surfaced about three weeks ago when there was speculation that designers involved in the store's Sarah Jessica Parker celebrity line Bitten were leaving to seek jobs with other retailers.

According to one retail executive from a higher-priced chain, Steve & Barry's has had two major flaws in its strategy — taking on too many leases too quickly, and selling merchandise at prices so low they rival Wal-Mart's.

"I don't know how you can sell goods at no markup, at \$8 or \$9, and expect to make money. The merchandise is [cheap] and they rolled it out and overextended," the executive said. The Port Washington, N.Y.-

based casual apparel sportswear chain has been one of the fastest-growing U.S. retailers, with more than 250 stores in operation in 40 states, but even with its celebrity-studded brand portfolio, its popularity among fashion-conscious shoppers with thrift on their minds isn't getting it too far in its search for financing. Pointing to the aftermath of the subprime mortgage debacle, one financial source noted, "Everyone is still cautious, to the point of making fewer loans because they'd rather err on the side of caution than risk more bad loans on the books."

One credit analyst said, "It's hard to figure out how well Steve & Barry's is doing because they only have two U.S. suppliers. The factors have been declining orders because the company won't give out any numbers. Right now, most of the private label goods are from overseas."

Another credit analyst said that a vendor seeking payment was told by the retailer that it would "get paid when it is able to pay."

Citing the low price points upon which S&B has built its reputation, the analyst pointed out, "Cheap doesn't work when your costs are going up and you don't want to alienate your customers by charging more than the average \$8.98 selling price. The big boxes are costly to operate and you don't get much margins from selling goods that cheap."

Steve & Barry's stores generally measure 50,000 to 100,000 square feet.

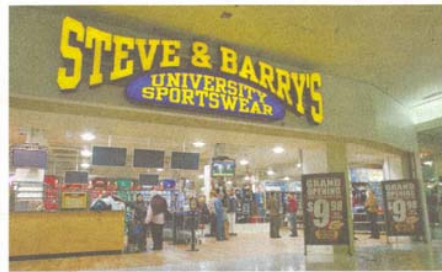
The news of the company's financial difficulties was first reported in *The Wall Street Journal* on Saturday.

If the retailer isn't able to secure new financing and turns to bankruptcy court for protection, it will be a precipitous fall for a company that was riding high with celebrity product launches and a high rate of store expansion. The retailer in 2005 was named *Hot Retailer of the Year* by the International Council of Shopping Centers.

The retailer sold a minority stake in November 2007 to TA Associates, a Boston-based buyout and private equity firm, in a move intended to help it grow and position itself for a possible initial public offering. TA associates said it had no qualms making an equity investment that included no debt in the deal, given Steve & Barry's growth prospects.

"If a company is growing fast enough you don't need to leverage it to achieve your returns," Jeffrey Barber, a principal of TA, said at the time of the investment.

But since the acquisition, a credit source noted, the firm stopped providing the financial community with regularly updated results, which led to the factors to stop checking the retailer for any U.S. suppliers that



might have wanted to do business with the retailer.

Licensing experts said that Steve & Barry's, which gained substantial notice in 2006 when it teamed up with basketball player Stephon Marbury to develop the Starbury collection of low-priced casual sportswear and athletic footwear, may have taken on too many licenses. In addition to Bitten, Dear by Amanda Bynes and Eleven by Venus Williams, the company has a deal with CBS Consumer Products, a division of CBS Entertainment, to use iconic TV properties such as "The Beverly Hillbillies," "The Brady Bunch" and "The Twilight Zone" for apparel, as well as agreements with Kellogg's and Pepsi.

Michael Stone, president and chief executive officer of the Beanstalk Group, a brand licensing agency and consultancy, said, "Clearly Steve & Barry's could be suffering from operational problems, which may have nothing to do with the marketing of the brands. They have grown very fast."

Another issue for Steve & Barry's is the company's price points. "They're selling goods at very low prices," Stone said. Stone said he understood Bitten was doing well. "Is it profitable? I don't know. I understood the sales were satisfactory, but it's a difficult model. They don't have that many stores. They're not doing the volume Wal-Mart is doing."

A top industry executive questioned the success of Bitten and said there's been turnover in the licensing department of Steve & Barry's. "A lot of the people who acquired those licenses are now gone. That might lead to inconsistency."

Financial sources in the retail community were surprised to learn of the pressing need for another \$30 million in financing because the company had sealed a \$197 million asset-based loan from GE Commercial Finance Corporate Lending for "ongoing capital needs" in March.

Then, the loan was viewed in the financial community as a loosening of the credit market as borrowers sought out better terms in a lower-interest environment. Now, some credit sources are pondering the possibility that Steve & Barry's had overexpanded too soon.

Some believe that, even if the company can get financing, the interest involved would soar.

That was the case with Goody's, the Tennessee-based retailer that was able to get financing earlier this year, but had to pay around 12 to 14 percent in interest to do so. It

caved when economic pressures forced consumers to pull back on spending. Goody's filed for Chapter 11 bankruptcy court protection earlier this month.

One of Goody's major shareholders is Prentice Capital Management, which also owns 5 percent or more of Whitehall, along with Holtzman Opportunity Fund and Millennium Partners. The jewelry retailer said Monday it has negotiated an \$80 million debtor-in-possession financing facility from Bank of America, Wells Fargo Retail Finance and GMAC Commercial Finance. The DIP facility replaces the \$125 million revolving credit facility it had prior to its Chapter 11 filing.

Whitehall listed assets of \$207.1 million and debts of \$185.4 million. Among the top trade creditors listed in the Whitehall bankruptcy are: S.D.C., or Sangam Diamonds Corp., New York, \$11.3 million; Kiran Jewels Inc., New York, \$9.4 million; Combine International, Troy, Mich., \$7.1 million; Rosy Blue, New York, \$6.9 million; Envisions, New York, \$4.5 million, and Leo Schachter Diamonds, New York, \$4.1 million.

The Chicago-based retailer operated 375 stores in 39 states as of May 16. In April, the retailer acquired certain assets of Friedman's Inc. and Crescent Jewelers for \$14.3 million. The purchase gave Whitehall about 78 stores. In fiscal 2007, Whitehall suffered a net loss of \$74.1 million, or \$2.25 a share, outpacing the loss of \$45.9 million, or \$1.81, of the prior year. Sales declined 8.8 percent to \$242.9 million from \$266.2 million in fiscal 2006.

On Wall Street, Talbots Inc. topped the New York Stock Exchange's list of biggest decliners, giving up a portion of last week's gains. The women's apparel retailer dropped 10.4 percent to \$12.31. Managerial shifts sent the missy retailer's shares soaring 20.1 percent last week.

Other missy retailers also continued on a downward trend. Chico's FAS declined 3.5 percent to close at \$3.99, Ann Taylor Stores Corp. sank 2.5 percent to \$24.95 and Charming Shoppes fell 5 percent to \$4.79. But New York & Co. saw a 1 percent gain to end the day at \$9.16.

In the teen space, Aeropostale Inc. decreased 4 percent to \$31.83, Abercrombie & Fitch sank 1.2 percent to \$66.71, Urban Outfitters dropped 2.6 percent to \$33, Pacific Sunwear of California declined 4 percent to \$8.81 and Zumiez Inc. fell 4.4 percent to \$18.55.

— With contributions from David Moin and Jeanine Poggi